

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BIG SANDY RURAL)	
ELECTRIC COOPERATIVE CORPORATION,)	CASE NO.
FLEMING-MASON ENERGY COOPERATIVE,)	2010-00089
INC., GRAYSON RURAL ELECTRIC)	
COOPERATIVE CORPORATION, AND)	
JACKSON ENERGY COOPERATIVE FOR AN)	
ORDER APPROVING AN ON-BILL FINANCING)	
PILOT PROGRAM TITLED THE "KY ENERGY)	
RETROFIT RIDER")	

ORDER

On February 26, 2010, Big Sandy Rural Electric Cooperative Corporation, Fleming-Mason Energy Cooperative, Inc., Grayson Rural Electric Cooperative Corporation, and Jackson Energy Cooperative (collectively "Joint Applicants") filed an application seeking approval of a proposed on-bill financing pilot program to encourage customers to implement energy efficient measures. The Joint Applicants will partner with the Mountain Association for Community Economic Development ("MACED")¹ to operate and fund the pilot program, known as the KY Energy Retrofit Rider ("KER Rider").

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), requested and was granted full intervention.

¹ MACED is a non-profit corporation whose mission is to provide comprehensive community development support to Appalachian communities by enhancing employment and living conditions in the area. MACED's major programs consist of business development, sustainable forestry, energy efficiency, and public policy research and education.

Pursuant to the Commission's Order dated April 7, 2010, a procedural schedule was established providing for two rounds of discovery and an opportunity for the filing of intervenor testimony. In addition, three informal conferences were conducted, resulting in additional information being filed by the Joint Applicants and MACED. The AG and the Joint Applicants filed comments on August 17, 2010 and August 31, 2010, respectively. The matter now stands submitted for a decision by the Commission on the evidentiary record.

KER RIDER

Although their customers are aware of the need to conserve energy and the direct impact any such conservation would have on their monthly bills, the Joint Applicants note that, due to various economic challenges and barriers, many of these customers are unable to implement even the most basic of energy conservation measures, such as window caulking, door sealing, electrical outlet sealing, and attic insulation. To assist customers in implementing energy saving measures, the Joint Applicants are proposing a two-year test of an on-bill financing program.

The KER Rider is a voluntary program available to a limited number of the Joint Applicants' residential and small commercial customers. The pilot program would initially target 200 customers distributed evenly among the Joint Applicants. The pilot program could expand to serve an additional 100 customers depending upon demand and available funding. Customers would pay for energy efficiency retrofits from the savings produced by the retrofits, with retrofit costs capped at 90 percent of the estimated savings. Because the cost of the investment is based on expected savings, a participating customer should not see any increase in his or her monthly bill. The on-bill

financing charge will appear as a separate line item on the bills of those customers participating in this program. MACED and the Joint Applicants stated that the current interest rate for any on-bill retrofit measure is 3 percent.²

Joint Applicants would identify targeted customers,³ conduct initial energy audits, oversee the installation of energy efficient measures, verify that the measures are satisfactorily completed, and evaluate ongoing performance or need for repair. As part of an energy audit, the Joint Applicants would conduct and develop a detailed conservation plan, consisting of an examination of the customer's premises, a description of each retrofit option proposed, modeled changes in cost of resources consumed at the premises attributable to the efficiency measures recommended, the estimated and maximum amounts of financing, and the retrofit charge.

Joint Applicants currently project that participating residential customers would select from among the following three general groups of measures: (1) insulation improvements; (2) air sealing; and (3) improvements in heating, cooling and ventilation equipment. Small commercial accounts will likely have these options, plus lighting improvements and upgrades. Joint Applicants would also be responsible for certifying and maintaining a list of independent contractors to provide installation services. Joint Applicants would also file a Uniform Commercial Code 1 financing statement, which would notify prospective property purchasers of the on-bill finance charge.

² In contrast, if the funds were advanced by a traditional lender, Joint Applicants and MACED indicate that the rate of interest charged would be approximately 6 to 8 percent.

³ Initially, the Joint Applicants would target those customers who have participated in energy audits but did not implement the measures suggested by those audits. In general, the Joint Applicants will market the pilot program to all residential and small commercial customers in their respective service areas.

MACED would provide the initial funding for program administration, including data infrastructure development, program design and coordination. The capital investment will come from \$500,000 that MACED has on hand. MACED has also obtained a \$1 million low-cost loan from the Ford Foundation to support the on-bill pilot program subject to the tariff model being approved by the Commission. MACED indicated that it has signed a contract with the Kentucky Housing Corporation for \$300,000 in operating funds. MACED also has outstanding requests with the U.S. Department of Treasury Community Development Finance Institution (“CDFI”)⁴ Fund and the U.S. Department of Energy stimulus grant filed through the Kentucky Department for Energy Development and Independence. MACED and the Joint Applicants commit to providing updates to the Commission on any additional funding that is received, or when new requests are made for the purpose of specifically funding the pilot program.

MACED’s common data infrastructure will pool pilot data and measurements of key variables to streamline program evaluation and highlight opportunities for design improvement. Key evaluation questions will include:

- (1) Are energy retrofit measures cost-effective for utility participating customers?
- (2) Are energy savings being realized?
- (3) How accurate are cost and energy saving estimates?

MACED states that it will work with Joint Applicants to collect and analyze the data to answer these questions during the operation of the pilot program. MACED will collaborate with the Joint Applicants to research and establish best audit and estimation

⁴ MACED is a certified CDFI.

practices, develop data systems, maintain data on behalf of the Joint Applicants, and finance retrofit measures.

Customers would be able to voluntarily participate in the pilot program by requesting an energy assessment and by executing a retrofit purchase agreement. The agreement establishes permission and terms for program participation, such as providing access to the respective utility for audit, retrofit, inspection and repairs; payment of retrofit charges included in utility bills; becoming informed about routine operation of retrofits; informing the utility if an installed retrofit measure fails or malfunctions; being responsible for all costs associated with customer damage or neglect; and accepting cost for out-of-warranty repairs. Customers would also be responsible for providing written notice to prospective tenants or purchasers of the premises and obtaining consent for the energy investment burden on the meter. Responsibility for outstanding obligations falls on the successor party, provided the required disclosure is made and consent to assume the obligation is obtained. If consent is not obtained, the original customer would be obligated to make all remaining payments. The terms of the residential purchase agreement will be capped at either 75 percent of the estimated life of the retrofit measure or 15 years, whichever is less. Commercial property accounts will have a maximum repayment term of 10 years.

Because the pilot program is being proposed as a tariff service, a participating customer is obligated to pay for overall utility service, which includes both the electric service provided and the repayment of the energy efficient investment as presented on the monthly bill. In the event of an outstanding balance remaining and the total monthly bill becoming past due, the utility will handle the matter in accordance with the

company's approved terms and conditions up to and including disconnection of service. Regarding potential bad debts, the Joint Applicants commit that any and all bad debts associated with the KER Rider would not be included in base rates.

MACED and the Joint Applicants indicate that the KER Rider is modeled after Midwest Energy's How\$mart⁵ Rider, as approved by the Kansas State Corporation Commission.⁶ The How\$mart program is directed primarily toward low-income and rental markets and is intended to overcome market factors that inhibit customers from buying cost-effective, resource-efficient products. The payment obligation for recovering the costs is assigned to the premises to be recovered through a monthly line item charge on the customer's utility bill. The payment obligation is transferable to subsequent customers at the same premises until the obligation is repaid in full. Failure to make payment could result in disconnection in accordance with Midwest's approved terms and conditions as provided in its tariff. However, the program is designed to actually lower customer bills, which should assist customers in meeting their payment obligations and result in fewer disconnections for non-payment.

MACED and the Joint Applicants note that customers of Midwest's How\$mart program generally rated their satisfaction with the utility as 97 percent highly satisfied, as compared with the average customer's rating of 85 percent. In addition, How\$mart customers' perceived value of utility service jumped from an average of 68 percent to 96

⁵ How\$mart is a registered trademark of Midwest Energy.

⁶ Docket No. 07-MDWE-788-TAR, In the Matter of Midwest Energy Seeking Commission Approval to Implement a Pay-As-You-Save Program for its Electric Service (KS Corp. Comm'n, August 16, 2007).

percent. MACED further notes that Midwest's How\$mart program has experienced less than a 1 percent default rate.

COMMENTS

Although applauding the Joint Applicants' initiative, the AG recommends that the proposal be denied. The AG expressed three areas of concern. First, the AG maintained that repayment of the investment, which could be as long as 15 years, is too long. In particular, the AG asserts that "if the program is not renewed after the end of the pilot period, there could be ratepayers stranded for a significant amount of time with these costs added to their bill." The AG recommends a five-year payback period be utilized. The Joint Applicants believe that a five-year payback period is arbitrary and would limit the size and scope of the efficiency measures available under the program.

Second, the AG expressed concern that the estimated life of an improvement may be much longer than the consumer is actually able to use it. For example, the AG argues that a heat pump system could last up to approximately 20 years. Under the pilot program, the investment in the heat pump would be amortized over a maximum 15-year period. However, if the heat pump fails for whatever reason and needs to be replaced before the 15-year payback period, the participating customer would be required to pay the remaining balance of the original upgrade plus the cost of a new replacement heat pump. In response to the AG's concern, the Joint Applicants propose to include extended manufacturer's warranties as part of the energy audit process and conservation plan development, or the cost of future repairs, into the retrofit charge on the customer's utility bill, as long as those charges do not extend the amortization period beyond the useful life of the equipment.

Lastly, the AG contends that the cap on the retrofit investment of 90 percent of the estimated energy savings is too high and does not allow for the possibility that actual energy savings may be lower than the estimated energy savings, either due to the measures not performing as expected or changes in the participating customer's behavior. The AG recommends that the threshold should be set at 75 percent plus any upgrade costs to ensure that the customer would not be surprised with a bill that is higher than before the upgrade. The Joint Applicants believe the AG's suggestion would decrease the number of customers that can afford to participate in the program.

DISCUSSION

The Commission finds that the KER Rider should be approved as proposed. By providing access to low cost financing, the KER Rider would provide incentive for customers to invest and implement energy efficient measures, which benefits not only the participating customers but the utility and, ultimately, the entire rate base by reducing demand. The program is directed at customers who, without access to low-cost capital, would most likely not avail themselves of energy efficient measures due to the expense involved. In addition, the cost is borne by those directly benefiting from the measures and not spread throughout the Joint Applicants' customer base. In furtherance of the cost-causer characteristic of the proposed program, the Joint Applicants have committed to exclude any unrecovered debt associated with the KER Rider from base rates. Lastly, the Commission emphasizes that this is a pilot program that is voluntary in nature. Thus, to fully and fairly assess the program at the end of the two-year pilot period, the essential structure of the program should be approved as provided in the application.

Another critical feature is that the program, as designed, should not increase a participating customer's monthly electric bill. Rather, payments for the energy efficiency measures implemented by a customer are based on the estimated savings to be achieved by the energy efficient measures, with the total cost capped at 90 percent of the estimated savings. To better ensure that the estimated savings will be achieved, the Commission is of the opinion that consumer education and information must be an integral component of the KER Rider. Towards that end, the Commission will require the Joint Applicants to file a comprehensive plan addressing how they would educate and inform their customers about all aspects of the program, including, but not limited to, behavioral awareness, product information, and those obligations the customers would be assuming as a participant in the KER Rider program. This comprehensive plan should also include a checklist of items to be reviewed with each participating customer, as well as a signed customer acknowledgement that the items on the checklist have been reviewed with the customer.

The Commission commends the Joint Applicants and MACED for developing the KER Rider and presenting this program for our review. In order to fully gauge and measure the progress and success of the program, the Commission will require the Joint Applicants to file status reports every six months to provide the Commission with information concerning the progress of the KER Rider program. The status report should include information on the overall total number of participants, number of new participants enrolled during the reporting period, copies of all audits performed during the reporting period, data on measurement and verification metrics, number of customers in payment default for the reporting period, the average monthly amount paid

for on-bill financing charges, the average estimated monthly savings, actual energy savings results, and documentation of any and all issues reported by participating on-bill financing customers and how each issue was resolved.

To ensure a transparent process concerning the inclusion of third-party contractors in any contractor's list, the Joint Applicants shall file with the Commission the set of criteria upon which a third-party contractor is selected to be included in each of the Joint Applicant's contractor's lists. In addition, any customer requesting a contractor who is not currently on one of the Joint Applicants' contractors' lists shall be directed by the Joint Applicants to have the contractor contact the Joint Applicants about being placed on the list. Lastly, to protect against any appearance of bias in the selection of independent contractors, the Joint Applicants shall include a copy of their independent contractor list in the semi-annual status report.

IT IS THEREFORE ORDERED that:

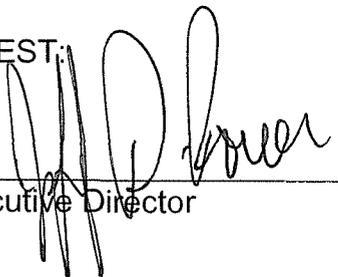
1. Joint Applicants' proposed KER Rider is approved.
2. Joint Applicants shall file with the Commission status reports every six months from the date of the issuance of this Order. The status reports shall include information previously outlined in the Order.
3. Within 20 days of the date of this Order, Joint Applicants shall file with the Commission a comprehensive educational plan addressing the information cited in the Order.
4. Within 20 days of the date of this Order, Joint Applicants shall file with the Commission the set of criteria upon which a third-party contractor is selected to be included in each of the utility's contractor lists.

5. Within 20 days of the date of this Order, Joint Applicants shall file with the Commission their KER Rider showing the date issued and that it was issued by authority of this Order. The KER Rider shall include the associated contractual agreements as well as the conservation plan.

By the Commission

ENTERED
DEC 16 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



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